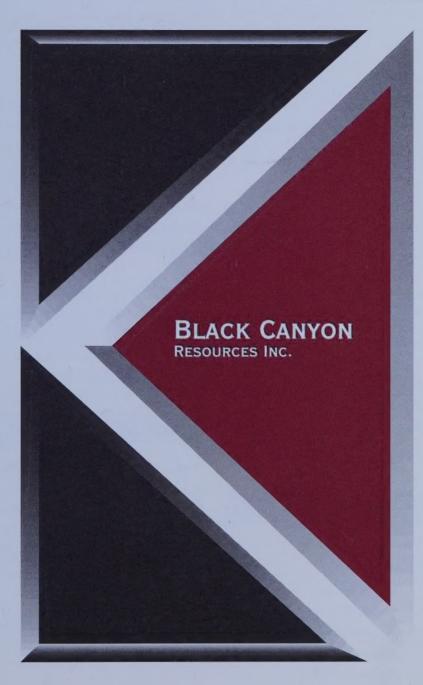
Winspear Business Finterence Room University of Alberta
1-18 Business Building
Edmonton, Alberta TGG 2RG



ANNUAL REPORT 1996

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ABBREVIATIONS

APO	After Pay Out
bbl	Barrel
bbls/d	Barrels per day
boe	Barrel of Oil equivalent
boe/d	Barrel of Oil equivalent per day
bopd	Barrel of oil per day
BPO	Before Pay Out
mcf/d	Thousands of cubic feet per day
mmcf	Millions of cubic feet
P&NG	Petroleum and Natural Gas

CORPORATE PROFILE

Black Canyon Resources Inc. is a junior oil and gas exploration, development and production company based in Calgary, Alberta. It has interests in strategic activities in Western Canada and the Southwestern United States.

The corporation's mission is to maximize shareholder value and increase cash flow through a combination of exploration, acquisition and development projects. Black Canyon believes that substantial growth can be achieved through exploratory ventures in which a significant land position can be acquired. The risks associated with exploration activities can be offset by low-risk development projects on existing properties in which it holds a high working interest.

The company was incorporated under the provisions of the Business Corporations Act (Alberta) on February 17, 1994 and completed its initial public offering in December of that year. Black Canyon shares trade on the Alberta Stock Exchange under the Symbol BCN.

ANNUAL GENERAL MEETING

The Annual General Meeting of Black Canyon Resources Inc. will be held at 11:00am on Thursday, June 5, 1997 in the Board Room in the Company's offices at Suite 950, 717-7th Avenue S.W., Calgary, Alberta. All shareholders are cordially invited to attend. For those who are unable to attend we encourage you to complete and return the Form of Proxy at your earliest convenience.

Report to the Shareholders

Black Canyon experienced significant growth in 1996 as the company continued to develop and add to its holdings. Our priorities were the evaluation and development of our existing properties as well as the identification of additional opportunities.

Throughout the year Black Canyon continued to consolidate its holdings by selling some of its non-core assets and increasing its interest in core areas. In addition we participated in the drilling of three developmental oil wells, one re-completion of an oil well and the evaluation of a capped gas well. These activities along with increased production from our waterflood project allowed Black Canyon to increase average production rates by more than 175%, more than double reserves and decrease our depletion rate by 14%. The increased volumes and efficiencies combined with strong commodity prices allowed Black Canyon to increase cashflow more than 900% and resulted in the company turning a profit.

In 1996 the company received approximately \$ 999,250 in proceeds from the execution of warrants which were due to expire. These proceeds were budgeted to fund acquisitions that provided upside potential. Several prospects were evaluated and during the fourth quarter of the year Black Canyon identified an opportunity that we believe met our criteria.

Subsequent to the year-end Black Canyon entered into a share purchase agreement with the shareholders of Golden Spike Energy Corporation. Golden Spike is a private exploration company with over 14 sections of petroleum and natural gas leases in central Alberta. This acquisition provides Black Canyon with access to an area with considerable potential, regional technical expertise and the ability to fund development projects in the area.

As a result of these activities Black Canyon enters 1997 with increased cashflow, additional exploration and development prospects and in a strong financial position for continued growth in the future.

The board of directors would like to thank our technical consultants for their efforts over the past year and our investors for their support.

On behalf of the Board of Directors.

R. J. Tessari

President and CEO

April 15, 1997

The Year in Review

Operations

During 1996 Black Canyon's average production rate increased to 78 boe/d from 28 boe/d in 1995. This increase in production coupled with average sale prices of \$27.65/bbl and \$1.38/mcf allowed Black Canyon to increase gross revenues by \$500,000 to \$693,000. Cashflow increased to \$286,332 from \$27,805 while average depletion rates declined to \$6.01/bbl from \$6.94/bbl. As a result Black Canyon recorded net income of \$115,539.

Capital Activities

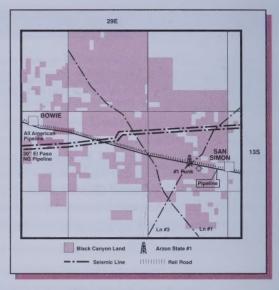
In 1996 Black Canyon increased its working interest in its Grand Forks holdings, drilled three developmental wells, re-completed an abandoned oil well and tested a capped gas well. These activities along with increased production from our waterflood project allowed Black Canyon to increase reserves from 95,000 boe to 223,000 boe. Total capital expenditures (net of divestitures) was approximately \$744,000 and resulted in average net finding costs of \$4.74 /boe.

PRINCIPAL PROJECTS

Pedregosa Basin

The Pedregosa Basin is located in southeastern Arizona and extends southward into Mexico. This basin has a depositional history similar to basins such as the Permian Basin located in West Texas. Although the Pedregosa Basin has remained largely unexplored there have been several reported hydrocarbon shows. Black Canyon has examined the geological data and firmly believes that the potential for large hydrocarbon reserves exists within the basin.

Black Canyon views the exploration and development of the basin as a long-term project. Participation in the drilling of the Arzon State #1 well in 1995 allowed Black Canyon to acquire an interest in over 80,000 acres of P & NG rights in the basin and it provided us with valuable geological information. Work in the Pedregosa Basin is ongoing and a second well location has been identified.



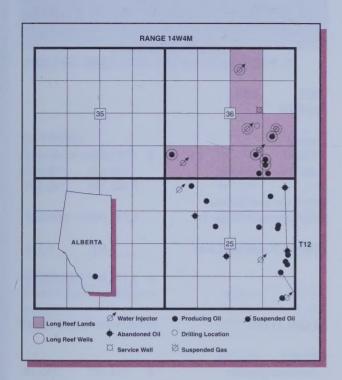
Long Reef Resources Inc.

Black Canyon owns 50% of the issued and outstanding shares of Long Reef Resources Inc. ("Long Reef"). The values used in the following property reports represent Black Canyon's net interest.

Grand Forks (12-14W4M)

The majority of the company's 1996 capital spending occurred in Grand Forks. The company increased its working interest in the lands to 15.625%. This increased interest translated into an additional 45 bopd and cost \$350,000. Once this acquisition was completed the company proceeded to participate in the drilling of 3 wells on the property.

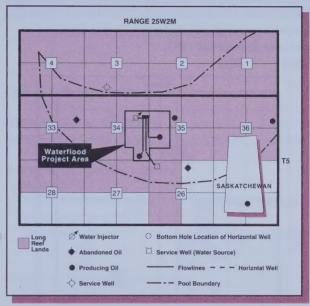
The first well was completed as a Sawtooth producer, reached a maximum of 190 bopd and is currently producing 110 bopd (17 bopd net). The second well produced 1000 bbls of oil from the Glauconite formation and has been suspended due to poor inflow rates and a high water-cut. A third well was drilled on the property in order to tap the Glauconite zone identified but bypassed by the first well. In this well the target zone was drilled using nitrogen to ensure underbalanced conditions. This well initially produced 95 bopd and has stabilized at approximately 45 bopd (7 bopd net).



Roncott (5-25W2M)

Another area of significant activity for the company was Roncott, Saskatchewan. An abandoned well at 11-35-5-25W2M was re-entered and completed as a Bakken oil producer. In conjunction with the re-entry the company also plugged back a significant portion of the horizontal section of the 16-35 well and performed hydraulic fracture stimulation. Due to the harshness of the winter results from these operations have been difficult to accurately determine however initial indications are that the wells are performing similar to the other wells in the area.

The pilot waterflood project at Roncott has been performing quite well and the production rates of the wells nearest to the injector have more than doubled since water injection began. A steady injection rate of 100 bbls/d is being maintained and is estimated to provide a voidage replacement ratio of over three to one in the drainage unit.



Other Activities

The company attempted to complete the 12-8 capped gas well at Bellis. Two potential zones were perforated and tested and subsequently the well was abandoned. Black Canyon had a net 50% working interest in the well and the cost to abandon was approximately \$55,000 (\$28,000 net).

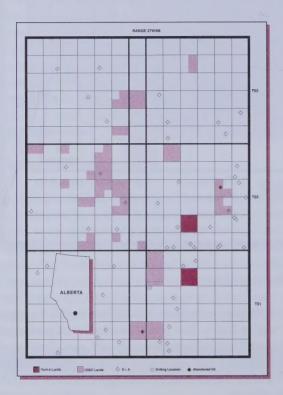
The company sold its interest in the single well located near Chin Coulee for a total price of \$60,000. The company's share of production was 2.5 bopd.

SUBSEQUENT EVENTS

Golden Spike Energy Corporation

In October of 1996 Black Canyon began negotiating with the shareholders of Golden Spike Energy Corporation. An agreement was signed on February 7, 1997 whereby Black Canyon would acquire 100% of the issued and outstanding shares of Golden Spike Energy Corporation in exchange for 1,281,250 common shares of Black Canyon Resources Inc.

Golden Spike controls over 8,900 acres of P & NG leases in the Stony Plain area of central Alberta. Exploration and development of the Golden Spike properties is currently under way and is expected to continue throughout 1997.



BLACK CANYON RESOURCES INC. CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31

<u>1996</u> <u>1995</u>

ASSETS

Current			
Cash	\$	991,699	69,443
Accounts receivable	1	196,633	72,661
		1,188,332	142,104
Petroleum and Natural			
Gas Properties (Note 3)		1,581,908	970,857
Deferred Financing Costs		8,605	4,244
Dolotted I manoring Cooks			
	\$	2,778,845	1,117,205
LIABILITIES			- 1
Current	ф	126 457	71 710
Accounts payable	\$	136,457	71,719
Long Term Debt (Note 4)		700,000	180,000
		836,457	251,719
		050,457	231,717
SHAREHOLDERS' EQUITY			
Capital Stock (Note 5)		1,883,419	922,056
Capital Stock (Note 3)		1,005,717	722,030
Retained Earnings (Deficit)		58,969	(56,570)
			, , , , , ,
		1,942,388	865,486

\$ 2,778,845

1,117,205

Approved On Behalf Of The Board:

Director

Director

BLACK CANYON RESOURCES INC. CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31

<u>1996</u>	<u>1995</u>
692,729	192,911
90,671	17,655
602,058	175,256
207,689	90,239
394,369	85,017
82,639	53,274
31,964	7,142
170,793	74,322
285,396	134,738
5	
108,973	(49,721)
6,566	1,789
115,539	(47,932)
(56,570)	(8,638)
58,969	(56,570)
0.010	(0.007)
	692,729 90,671 602,058 207,689 394,369 82,639 31,964 170,793 285,396 108,973 6,566 115,539 (56,570)

BLACK CANYON RESOURCES INC. CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED DECEMBER 31

	<u>1996</u>	<u>1995</u>
Cash Provided by (Used In)		
OPERATING ACTIVITIES		
Net income (loss) for the year \$	115,539	(47,932)
Add items not involving a current cash outlay		
Depletion and amortization Amortization of deferred	167,442	74,322
financing costs	3,351	1,415
	286,332	27,805
Changes in working capital balances		
related to operating activities		
Accounts receivable	(123,972)	(71,447)
Funds held in trust	(123,572)	85,000
Accounts payable	64,738	67,067
	227,098	108,425
FINANCING ACTIVITIES		
Proceeds from long term debt	520,000	180,000
Deferred financing costs	(7,700)	(5,658)
Issuance of capital stock	999,250	714,500
Share issuance costs	(37,887)	(44,028)
	1,473,663	844,814
INVESTING ACTIVITIES		
Acquisition of Long Reef Resources Purchase of petroleum and natural		(462,342)
gas assets Proceeds on sale of petroleum and	(844,517)	(635,429)
natural gas assets	66,012	52,592
	(778,505)	(1,045,179)
Increase (Decrease) in Cash	922,256	(91,940)
Cash at Beginning of Year	69,443	161,383
Cash at the End of Year \$	991,699	69,443

BLACK CANYON RESOURCES INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31

NOTE 1 BASIS OF CONSOLIDATION

These financial statements include the operations of Black Canyon Resources Inc. ("Black Canyon") and the results of the proportionate consolidation of its 50% interest in Long Reef Resources Inc. ("Long Reef").

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

a) i) Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for petroleum and natural gas properties and equipment whereby all costs, net of government incentives, relating to the exploration for and development of oil and gas reserves, are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells, related plant and production equipment costs and overhead charges.

Proceeds on disposal of properties are normally applied as a reduction of the capitalized costs without recognition of a gain or loss except where such a disposal would alter the depletion and amortization rate by 20% or more.

The Company carries its petroleum and natural gas assets at the lower of the capitalized cost and net recoverable value. Net capitalized cost is calculated as the net book value of the related asset less the accumulated provisions for deferred income taxes and site restoration costs, if any. Net recoverable value is limited to the sum of future net revenues from proven properties and the cost of unproved properties, net of provision for impairment, less estimated future financing and administrative expenses and income taxes. Future net revenues are based on prices and costs prevailing at the year end.

ii) Depletion and Amortization

Accumulated costs of petroleum and natural gas properties and equipment, including provision for future development expenditures, are depleted using the unit-of-production method based on an estimate of proven petroleum and natural gas reserves, as prepared by independent petroleum engineers. Accumulated costs are reviewed annually for impairment in value. Additional depletion is provided if the aggregate net book value of petroleum and natural gas assets exceeds estimated future production revenues.

b) Future Site Restoration and Abandonment Costs

The estimated costs for future site restoration and abandonment are reviewed on an annual basis. The estimates are based upon regulatory and industry standards in effect at year end. These costs are compared to the estimates of salvage values and sales proceeds and the net annual charge, if any, is recorded as a provision for site restoration. The actual site restoration costs would be charged to the provision as incurred.

No provision has been recorded for the current year as the estimates of salvage values and sales proceeds are in excess of the estimated costs.

c) Deferred Financing Costs

Deferred financing costs have been recorded at cost and are being amortized on a straight line basis over five years.

d) Joint Venture Operations

Substantially all of the Company's exploration and production activities are conducted jointly with other entities. Accordingly these financial statements reflect only the Company's proportionate interest in such activities.

e) Measurement Uncertainty

The amounts recorded for depletion and amortization of petroleum and natural gas properties and the provision for future abandonment and site restoration costs are based on estimates. The ceiling test is based on such factors as estimated proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

f) Per Share Information

Income (loss) per share has been calculated based on the weighted average number of shares outstanding during the year of 11,210,096 (1995 - 6,629,207). Fully diluted earnings per share, as affected by stock options has a minimal effect on the income per share. For 1995 the effect of the options was anti-dilutive.

NOTE3 PETROLEUMAND NATURAL GAS PROPERTIES

	<u>1996</u>		1995	Common sh
	Accumulated			
	Depletion and	Net Book	Net Book	Balance, D
Cost	Amortization	<u>Value</u>	<u>Value</u>	
				Issued for
Petroleum and	l natural gas prope	rties		Private pl Stock opt
\$ <u>1,839,671</u>	257,763	1,581,908	970,857	Stock opt
				Share issue
NOTE 4 LO	NG TERM DEBT	r		
		1006	1005	D 1 - D
		<u>1996</u>	<u>1995</u>	Balance, D
An oil and gas	revolving demand	d bank		Issued for
	y Long Reef as to			Stock opt
interest only a	t prime plus 1.25%	per per		Warrants
annum. Secur	rity for the indebte	dness		
	a \$3 million fixed			
	harge debenture, a			Share issue
	ty agreement cove			D.I. D
	s of Long Reef an			Balance, D
companies.	s of claim by the p	\$700,00	00 180,000	c) Preferre
companies.		\$700,00	100,000	c) I teleffe

There are no fixed terms of repayment. The loans are expected to be repaid from production revenues and/or proceeds from future share issuances, therefore no amount has been disclosed as being currently payable. The interest on long term debt was \$31,654 (1995-\$5,556).

NOTE 5 CAPITAL STOCK

a) Authorized capital

Unlimited number of common voting shares Unlimited number of first, second and third preferred shares

b) Issued

Common shares	Number	Consideration
Balance, December 31, 1994	4,000,002	\$ 251,584
Issued for cash		
Private placements	4,700,000	705,000
Stock options exercised	95,000	9,500
1	8,795,002	966,084
Share issue costs	-	(44,028)

Balance, December 31, 1995	8,795,002	922,056
Issued for cash		
Stock options exercised	105,000	10,500
Warrants exercised	3,955,000	988,750
	12,855,002	1,921,306
Share issue costs	-	(37,887)
Balance, December 31, 1996	12,855,002	\$ 1,883,419

ed Shares

The preferred shares may be issued in one or more series and the directors areauthorized to fix the number of shares in each series and to determine the designation, rights, privileges and conditions attached to the shares of each series.

d) Stock Options

The Company has a stock option plan under which the Board of Directors can grantoptions to purchase common shares to directors, officers, senior employees and consultants.

The Company has granted stock options on 400,000 common shares as follows:

<u>To</u>	Price <u>Date</u>	Number Per Share	Expiration of Shares	<u>Date</u>
Directors	Apr 20/94	0.10	400,000	Mar 31/99

e) Escrowed Shares

Under the requirements of the Alberta Securities Commission and the Alberta Stock Exchange, 2,080,002 common shares issued or obtained in connection with the initial incorporation or secondary market were held in escrow.

The escrowed shares may be released as to one third thereof, on the first anniversary of the completion of the Company's Major Transaction, which was May 3, 1995. At the time of consent for the first release, approval of the second and third releases may be obtained. The balance of escrowed shares at December 31, 1996 was 1,386,671.

NOTE 6 INCOME TAXES

At December 31, 1996, the Company had approximately \$2,200,000 (1995-\$1,800,000) of tax deductions available to be applied against future years' income for income tax purposes. These deductions, of which \$1,900,000 relate to Long Reef, consist of Canadian Development Expenses, Canadian Exploration Expenses, Canadian Oil and Gas Property Expenses, Foreign Exploration and Development Expenses and Undepreciated Capital Cost Allowance, all of which are available for carryforward indefinitely.

The Company also has approximately \$181,000 of non capital losses which may be carried forward and applied against future income for income tax purposes as follows:

To:	2001	\$ 8,000
	2002	85,000
	2003	88,000

NOTE 7 RELATED PARTY TRANSACTIONS

Black Canyon has entered into a consulting agreement with a company, the president of which is a director of Black Canyon. Under the terms of the agreement, the services provided are charged on an hourly basis, at a rate considered consistent with industry standards.

Long Reef has entered into a consulting agreement with a company whose president is a director of the other 50% owner of Long Reef. The terms of this agreement are as follows:

· the amount paid is not to exceed \$7,800 per month;

- the company will receive a bonus of 10% of the yearly incremental cash flow recorded in Long Reef.
- the company has the option to purchase 10% of Long Reef. The option expires May 1, 1998;
- the contract may be terminated by either party upon thirty days notice.

Under the terms of the agreement, the services provided are charged on an hourly basis, at a rate considered consistent with industry standards.

Pursuant to the above contracts, the Company paid \$87,535 (1995-\$47,355).

NOTE 8 SEGMENTED INFORMATION

The Company's business activity consists of one industry which is the exploration for and development and production of oil and gas reserves. Its activity is conducted in Western Canada and the United States, with the following geographic segmentation:

<u>Uni</u>	ted States	Canada	Total
Oil and gas production	\$ -	692,729	692,729
Operating income	-	394,369	394,369
Depletion and amortization	on -	167,442	167,442
Capital expenditures	18,170	760,335	778,505
Identifiable assests	308,497	2,470,348	2,778,845

NOTE 9 SUBSEQUENT EVENTS

Subsequent to the year end the Company entered into a share purchase agreement, whereby it acquired all the issued and outstanding shares of Golden Spike Energy Corporation, a private company which owns interests in certain central Alberta petroleum and natural gas leases. The total consideration was \$410,000 in the form of 1,218,250 common shares of Black Canyon.

BLACK CANYON RESOURCES INC. AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF BLACK CANYON RESOURCES INC.:

We have audited the consolidated balance sheets of **Black Canyon Resources Inc.** as at December 31, 1996 and 1995, and the consolidated statements of income and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

CHARTERED ACCOUNTANTS

Sam & helley Slu

March 24, 1997 Calgary, Alberta

BOARD OF DIRECTORS

ROBERT J. TESSARI ANDREW W. SPINNEY JOHN A. TESSARI BRUCE McGRATH

OFFICERS

ROBERT J. TESSARI - PRESIDENT AND CEO
ANDREW W. SPINNEY - SECRETARY-TREASURER AND CFO

HEAD OFFICE

950, 717-7TH AVENUE S.W. CALGARY, ALBERTA, T2P OZ3 PHONE: (403) 237-8407 FAX: (403) 261-6809

REGISTRAR & TRANSFER AGENT

MONTREAL TRUST 600, 530 - 8TH AVENUE S.W. CALGARY, AB T2P 3E8

AUDITORS

BARR SHELLEY STUART
SUITE 600, 808 - 4TH AVENUE S.W.
CALGARY, AB T2P 3E8

SOLICITORS

OGILVIE & COMPANY 1600 CANADA PLACE 407 - 2ND STREET S.W. CALGARY, AB T2P 2Y3

BANKERS

BANK OF MONTREAL 340 - 7TH AVENUE S.W. CALGARY, AB T2P OX4

LISTED

ALBERTA STOCK EXCHANGE (BCN)